

CITY OF ST. LOUIS

Gratiot County, Michigan

FINANCIAL STATEMENTS

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
City of St. Louis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Louis as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Louis as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members of City Council
City of St. Louis, Michigan

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedule of changes in net pension liability and related ratios (page 51), schedule of defined benefit plan pension contributions (page 52), and budgetary comparison information (pages 53 and 54), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Louis' basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of the City of Louis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of St. Louis' internal control over financial reporting and compliance.

Berthiaume & Co.

Saginaw, Michigan
November 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

As management of the City of St. Louis (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$61,696,021 for the fiscal year ended June 30, 2016, compared to \$54,307,129 for the fiscal year ended June 30, 2015.
- In the City's governmental activities, revenues generated were \$2,973,428 while expenses totaled \$2,573,567.
- In the City's business-type activities, revenues generated were \$13,922,217 while expenses totaled \$7,042,545.
- Total net position increased by \$7,388,892.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the City's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. The *statement of activities* presents all of the City's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the City of St. Louis are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The City charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include electric, water and sewer, and solid waste.

Component Unit – The City includes the Downtown Development Authority as a discretely presented component unit.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The City has three types of funds:

Governmental Funds – Many of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The City maintains nine (9) individual governmental funds. Separate information is presented for the General Fund and New City Hall Fund, which are considered to be "major" funds. Data from the other seven (7) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been presented for major governmental funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the City charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows. The City's enterprise funds are the Electric Fund, Water and Sewer Fund and Solid Waste Fund.
- Internal service funds are used to report activities that provide supplies and services to the City's other programs. The City's internal service fund is the Motor Pool Fund.

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

THE CITY AS A WHOLE:

The City's total combined net position for the fiscal year ended June 30, 2016 is \$61,696,021, consisting of \$10,089,308 in governmental activities and \$51,606,713 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$1,631,894. Governmental activities unrestricted total is \$856,302, while business-type activities is \$775,592.

The following table shows comparisons of total assets, total deferred outflows, total liabilities, and total net position in a condensed format as of June 30, 2016 and June 30, 2015.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
Assets:						
Current and other assets	\$ 2,828,245	\$ 2,813,598	\$ 9,674,304	\$ 13,740,275	\$ 12,502,549	\$ 16,553,873
Capital assets, net	9,763,685	8,938,963	50,642,668	41,974,934	60,406,353	50,913,897
Total assets	<u>12,591,930</u>	<u>11,752,561</u>	<u>60,316,972</u>	<u>55,715,209</u>	<u>72,908,902</u>	<u>67,467,770</u>
Deferred outflows	<u>147,998</u>	<u>51,548</u>	<u>583,135</u>	<u>241,176</u>	<u>731,133</u>	<u>292,724</u>
Liabilities:						
Other liabilities	216,022	512,165	1,081,584	4,359,610	1,297,606	4,871,775
Long-term liabilities	<u>2,434,598</u>	<u>1,878,046</u>	<u>8,211,810</u>	<u>6,703,544</u>	<u>10,646,408</u>	<u>8,581,590</u>
Total liabilities	<u>2,650,620</u>	<u>2,390,211</u>	<u>9,293,394</u>	<u>11,063,154</u>	<u>11,944,014</u>	<u>13,453,365</u>
Net position:						
Net investment in capital assets	7,876,346	7,457,949	44,624,060	36,956,135	52,500,406	44,414,084
Restricted	1,356,660	1,098,162	6,207,061	5,863,028	7,563,721	6,961,190
Unrestricted	<u>856,302</u>	<u>857,787</u>	<u>775,592</u>	<u>2,074,068</u>	<u>1,631,894</u>	<u>2,931,855</u>
Total net position	<u>\$10,089,308</u>	<u>\$ 9,413,898</u>	<u>\$51,606,713</u>	<u>\$44,893,231</u>	<u>\$ 61,696,021</u>	<u>\$ 54,307,129</u>

The City's combined total net position increased by \$7,388,892 during the current fiscal year. Governmental activities increased by \$675,410 while business-type activities increased by \$6,713,482. The Water and Sewer Fund recognized federal capital grant revenue of \$6,008,383 and other capital grants of \$362,527 which together account for most of the increase in business-type net position.

Governmental Activities:

The City's total governmental revenue is reported at \$2,973,428, an increase of \$235,412 from the prior fiscal year. Total expenses decreased by \$517,359 from the prior fiscal year.

Business-type Activities:

The City's total business-type revenue is reported at \$13,922,217, a decrease of \$2,859,509 from the prior fiscal year. Total expenses increased by \$749,050 from the prior fiscal year.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

The following table shows the comparison of the change in net position in a condensed format for the fiscal years ended June 30, 2016 and June 30, 2015.

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues						
Charges for services	\$ 727,199	\$ 656,632	\$ 7,353,764	\$ 7,149,021	\$ 8,080,963	\$ 7,805,653
Operating grants	613,287	572,127	179,770	41,435	793,057	613,562
Capital grants	195,319	225,019	6,370,910	9,577,338	6,566,229	9,802,357
General revenues						
Property taxes	839,030	741,926	-	-	839,030	741,926
Franchise fees	27,138	26,866	-	-	27,138	26,866
State revenue sharing	531,261	496,658	-	-	531,261	496,658
Investment earnings	6,633	6,201	17,773	13,932	24,406	20,133
Other	33,561	12,587	-	-	33,561	12,587
Total revenues	<u>2,973,428</u>	<u>2,738,016</u>	<u>13,922,217</u>	<u>16,781,726</u>	<u>16,895,645</u>	<u>19,519,742</u>
Expenses:						
General government	680,290	565,355	-	-	680,290	565,355
Public safety	845,627	979,753	-	-	845,627	979,753
Public works	555,753	1,138,073	-	-	555,753	1,138,073
Community and economic development	111,788	122,579	-	-	111,788	122,579
Recreation and culture	310,636	266,663	-	-	310,636	266,663
Interest on long-term debt	69,473	18,503	-	-	69,473	18,503
Electric	-	-	3,993,478	4,183,476	3,993,478	4,183,476
Water and Sewer	-	-	2,724,559	1,803,036	2,724,559	1,803,036
Solid Waste	-	-	324,508	306,983	324,508	306,983
Total expenses	<u>2,573,567</u>	<u>3,090,926</u>	<u>7,042,545</u>	<u>6,293,495</u>	<u>9,616,112</u>	<u>9,384,421</u>
Excess of revenues over expenses before other	<u>399,861</u>	<u>(352,910)</u>	<u>6,879,672</u>	<u>10,488,231</u>	<u>7,279,533</u>	<u>10,135,321</u>
Other items:						
Contributions to principal	3,394	3,956	-	-	3,394	3,956
Sale of capital assets	105,965	56,261	-	-	105,965	56,261
Interfund transfers	166,190	288,908	(166,190)	(288,908)	-	-
Total other items	<u>275,549</u>	<u>349,125</u>	<u>(166,190)</u>	<u>(288,908)</u>	<u>109,359</u>	<u>60,217</u>
Changes in net position	<u>675,410</u>	<u>(3,785)</u>	<u>6,713,482</u>	<u>10,199,323</u>	<u>7,388,892</u>	<u>10,195,538</u>
Net position, beginning	<u>9,413,898</u>	<u>9,417,683</u>	<u>44,893,231</u>	<u>34,693,908</u>	<u>54,307,129</u>	<u>44,111,591</u>
Net position, ending	<u>\$10,089,308</u>	<u>\$ 9,413,898</u>	<u>\$51,606,713</u>	<u>\$44,893,231</u>	<u>\$61,696,021</u>	<u>\$54,307,129</u>

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

THE CITY'S FUNDS:

Presentation of the City of St. Louis' major funds and aggregate nonmajor begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and one of two governmental funds that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended June 30, 2016, General Fund financing uses exceeded its financing sources by \$115,360, decreasing its ending fund balance to \$735,104. The City's second major governmental fund, the New City Hall Fund decreased its ending fund balance by \$37,438.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected a net decrease in fund balance of \$192,252. During the year, the City made budget amendments which changed the projection to a net decrease in fund balance of \$328,671. The actual results for the year yielded a decrease in fund balance of \$115,360.

Capital Assets and Debt Administration:

At June 30, 2016, the City of St. Louis had \$60,406,353 invested in a range of capital assets including land, buildings and improvements, equipment, vehicles, electric, water and sewer lines, streets, and other infrastructure, net of accumulated depreciation. At June 30, 2015, this total was \$50,913,897. Additional information about the City's capital assets is presented in Note 1 and Note 6 of the Notes to the Financial Statements.

At June 30, 2016, the City of St. Louis' total long-term indebtedness (not including compensated absences and net pension liability) was \$7,905,996, of which \$1,887,388 was backed by the full faith and credit of the City and the remaining \$6,018,608 was backed by specific revenue sources. Additional information about the City's indebtedness is presented in Note 7 of the Notes to the Financial Statements.

Economic Factors:

Following the discovery of traces of varying levels of the chemical compound para-Chlorobenzene Sulfonic Acid from the Velsicol Superfund Site in all six municipal drinking water supply wells, the Michigan Department of Environmental Quality strongly suggested replacement of the City's entire water supply in a location five miles or greater from the City. During fiscal year 2010-2011, litigation was settled against Velsicol Chemical Company, the Velsicol Trust Funds et al (responsible parties for the contamination) in the amount of \$26,500,000. These funds, together with a \$27,100,000 grant awarded by the United States Environmental Protection Agency (US EPA), are being used to design and construct a new water supply system. This system is a collaboration with the close-by City of Alma. Subsequent to year end, the City of St. Louis began receiving water from the new project even though significant construction continues. To date, it is estimated that the project is 72% complete.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Gratiot County (which includes the City of St. Louis and the surrounding incorporated and unincorporated area), has a labor force of 18,001 as of July 2016, which is down from July 2015 by 274. The unemployment rate in the County for July 2016 is 5.5% which is down from the July 2015 rate of 6.4%. Similarly statewide the unemployment for the same period saw a downward trend of 5.9% to 4.5%.

As the State's economy continues to improve from the recent recession, the State's decline in support to local government, though not to pre-recession levels, has over the current fiscal year seen some improvement. We are continuing to see improvement in the local business climate. Efforts continue to recruit new business to any vacant store front so as to provide residents and visitors a variety of stores, specialty shops, and commercial businesses. The City expects to be able to maintain a healthy downtown with a minimal number of vacant storefronts. Though there were no new residential construction starts over the past year we are seeing the number of vacant homes decline and an increased number of improvements to the existing housing stock.

During the current fiscal year ended June 30, 2016, the unassigned fund balance in the general fund is \$577,681. The City has projected a balanced budget for the upcoming fiscal year but continues to use fund balance to do so. Improvement in the housing market and increasing home prices are indicators that tax revenues in the general fund will begin to increase. However the rebound may not happen fast enough to enable the City to avoid some significant cuts in services in the near future. The City continues to monitor spending closely and seek out revenue sources and programs.

Contacting the City's Financial Management:

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact Bobbie Marr, Finance Director, City of St. Louis, 300 N. Mill Street, St. Louis, Michigan 48880.

BASIC FINANCIAL STATEMENTS

CITY OF ST. LOUIS

STATEMENT OF NET POSITION

June 30, 2016

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 2,497,153	\$ 1,134,100	\$ 3,631,253	\$ 10,008
Investments	204,328	1,429,988	1,634,316	-
Receivables	259,283	1,445,588	1,704,871	-
Internal balances	(194,667)	194,667	-	-
Inventory	20,345	246,500	266,845	-
Prepaid expenses	41,803	-	41,803	-
Restricted cash and cash equivalents	-	1,829,324	1,829,324	-
Restricted investments	-	2,644,137	2,644,137	-
Advance to Water Authority	-	750,000	750,000	-
Asset held for resale	-	-	-	85,000
Capital assets not being depreciated	2,395,127	38,649,993	41,045,120	-
Capital assets being depreciated, net	<u>7,368,558</u>	<u>11,992,675</u>	<u>19,361,233</u>	-
Total assets	<u>12,591,930</u>	<u>60,316,972</u>	<u>72,908,902</u>	<u>95,008</u>
Deferred outflows of resources:				
Related to pension	<u>147,998</u>	<u>583,135</u>	<u>731,133</u>	-
Liabilities:				
Accounts payable and accrued expenses	216,022	1,081,584	1,297,606	59
Long-term liabilities:				
Due within one year				
Current portion of compensated absences	56,480	68,844	125,324	-
Current portion of long-term debt	120,096	290,000	410,096	6,545
Due in more than one year				
Compensated absences	10,605	38,152	48,757	-
Long-term debt	1,767,243	5,728,608	7,495,851	33,515
Net pension liability	<u>480,174</u>	<u>2,086,206</u>	<u>2,566,380</u>	-
Total liabilities	<u>2,650,620</u>	<u>9,293,394</u>	<u>11,944,014</u>	<u>40,119</u>
Net position:				
Net investment in capital assets	7,876,346	44,624,060	52,500,406	-
Restricted for:				
Debt service	10,126	565,354	575,480	-
Library operations	259,543	-	259,543	-
Nonexpendable cemetery principal	178,396	-	178,396	-
Replacement/improvements	-	5,641,707	5,641,707	-
Streets	908,595	-	908,595	-
Unrestricted	<u>856,302</u>	<u>775,592</u>	<u>1,631,894</u>	<u>54,889</u>
Total net position	<u>\$ 10,089,308</u>	<u>\$ 51,606,713</u>	<u>\$ 61,696,021</u>	<u>\$ 54,889</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

STATEMENT OF ACTIVITIES Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 680,290	\$ 540,842	\$ -	\$ -	\$ (139,448)
Public safety	845,627	50,206	14,229	-	(781,192)
Public works	555,753	16,969	546,166	50,419	57,801
Community and economic development	111,788	-	20,300	-	(91,488)
Recreation and culture	310,636	119,182	32,592	144,900	(13,962)
Interest on long-term debt	69,473	-	-	-	(69,473)
Total governmental activities	<u>2,573,567</u>	<u>727,199</u>	<u>613,287</u>	<u>195,319</u>	<u>(1,037,762)</u>
<i>Business-type activities:</i>					
Electric	3,993,478	4,211,882	-	-	218,404
Water and Sewer	2,724,559	2,796,326	179,770	6,370,910	6,622,447
Solid Waste	324,508	345,556	-	-	21,048
Total business-type activities	<u>7,042,545</u>	<u>7,353,764</u>	<u>179,770</u>	<u>6,370,910</u>	<u>6,861,899</u>
Total primary government	<u>\$ 9,616,112</u>	<u>\$ 8,080,963</u>	<u>\$ 793,057</u>	<u>\$ 6,566,229</u>	<u>\$ 5,824,137</u>
COMPONENT UNIT:					
Downtown Development Authority	<u>\$ 24,111</u>	<u>\$ 5,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (18,558)</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended June 30, 2016

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (1,037,762)	\$ 6,861,899	\$ 5,824,137	\$ (18,558)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	646,959	-	646,959	-
Property taxes, levied for library operations	185,371	-	185,371	-
Property taxes, captured by component unit	-	-	-	18,447
Payment in lieu of taxes	6,700	-	6,700	-
Franchise fees	27,138	-	27,138	-
Grants and contributions not restricted to specific programs	531,261	-	531,261	-
Unrestricted investment earnings	6,633	17,773	24,406	16
Other	33,561	-	33,561	-
Contributions to principal of permanent funds	3,394	-	3,394	-
Special items:				
Gain (loss) on sale of capital asset	105,965	-	105,965	-
Transfers	166,190	(166,190)	-	-
Total general revenues and other	<u>1,713,172</u>	<u>(148,417)</u>	<u>1,564,755</u>	<u>18,463</u>
Change in net position	675,410	6,713,482	7,388,892	(95)
Net position, beginning of year	<u>9,413,898</u>	<u>44,893,231</u>	<u>54,307,129</u>	<u>54,984</u>
Net position, end of year	<u>\$ 10,089,308</u>	<u>\$ 51,606,713</u>	<u>\$ 61,696,021</u>	<u>\$ 54,889</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2016

	<i>General Fund</i>	<i>New City Hall Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	\$ 348,943	\$ -	\$ 1,920,590	\$ 2,269,533
Investments	204,328	-	-	204,328
Taxes receivable	6,882	-	372	7,254
Accounts receivable	48,667	-	309	48,976
Notes receivable	1,713	-	-	1,713
Due from other governments	108,178	-	92,826	201,004
Prepaid expenditures	41,803	-	-	41,803
Advance receivable from other funds	<u>81,168</u>	<u>-</u>	<u>-</u>	<u>81,168</u>
Total assets	<u>\$ 841,682</u>	<u>\$ -</u>	<u>\$ 2,014,097</u>	<u>\$ 2,855,779</u>
Liabilities and Fund Balances:				
<i>Liabilities:</i>				
Accounts payable	\$ 48,309	\$ -	\$ 39,299	\$ 87,608
Accrued expenses	42,835	-	7,471	50,306
Due to other governments	3,174	-	-	3,174
Deposits payable	<u>12,260</u>	<u>-</u>	<u>-</u>	<u>12,260</u>
Total liabilities	<u>106,578</u>	<u>-</u>	<u>46,770</u>	<u>153,348</u>
<i>Fund balances:</i>				
Nonspendable:				
Prepaid expenditures	41,803	-	-	41,803
Long-term receivables	60,034	-	-	60,034
Nonexpendable cemetery principal	-	-	178,396	178,396
Restricted for:				
Debt service	-	-	10,126	10,126
Library operations	-	-	259,543	259,543
Streets	-	-	908,595	908,595
Assigned to:				
Capital improvements	-	-	574,837	574,837
Cemetery improvements	25,498	-	-	25,498
Cemetery operations	-	-	35,830	35,830
Pool house improvements	30,088	-	-	30,088
Unassigned	<u>577,681</u>	<u>-</u>	<u>-</u>	<u>577,681</u>
Total fund balances	<u>735,104</u>	<u>-</u>	<u>1,967,327</u>	<u>2,702,431</u>
Total liabilities and fund balances	<u>\$ 841,682</u>	<u>\$ -</u>	<u>\$ 2,014,097</u>	<u>\$ 2,855,779</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

June 30, 2016

Fund balances of governmental funds	\$ 2,702,431
Net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets not being depreciated	2,395,127
Capital assets being depreciated, net	7,368,558
Capital assets accounted for in the internal service fund	(924,103)
Deferred outflows from the difference between projected and actual investment earnings of the pension plan as well as City contributions made after the measurement date of the net pension liability are not reported in the funds.	147,998
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.	(19,599)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.	
Bonds payable	(1,702,201)
Compensated absences payable	(63,533)
Net pension liability	(480,174)
A portion of the net position (including capital assets of \$924,103) and liabilities of the internal service fund are included in the governmental activities in the statement of net position (net of \$194,667 allocation to business-type activities).	<u>664,804</u>
Net position of governmental activities	<u><u>\$ 10,089,308</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

	<u>General Fund</u>	<u>New City Hall Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$ 653,659	\$ -	\$ 185,371	\$ 839,030
Licenses and permits	15,220	-	-	15,220
Federal grants	-	-	41,529	41,529
State grants	691,554	-	539,582	1,231,136
Contributions from other units	-	-	20,300	20,300
Charges for services	590,598	-	5,944	596,542
Fines and forfeits	1,453	-	104,053	105,506
Interest and rents	14,967	120	3,215	18,302
Other revenue	155,319	-	20,570	175,889
Total revenues	<u>2,122,770</u>	<u>120</u>	<u>920,564</u>	<u>3,043,454</u>
Expenditures:				
Current				
General government	526,859	-	-	526,859
Public safety	808,016	-	-	808,016
Public works	103,151	-	298,584	401,735
Community and economic development	110,403	-	-	110,403
Recreation and culture	119,647	-	147,565	267,212
Other	50,653	-	-	50,653
Capital outlay	298,445	521,853	109,857	930,155
Debt service				
Principal	19,000	-	85,000	104,000
Interest and fees	42,849	-	8,811	51,660
Total expenditures	<u>2,079,023</u>	<u>521,853</u>	<u>649,817</u>	<u>3,250,693</u>
Excess (deficiency) of revenues over expenditures	<u>43,747</u>	<u>(521,733)</u>	<u>270,747</u>	<u>(207,239)</u>
Other financing sources (uses):				
Capital lease financing	26,202	-	-	26,202
Proceeds from bond issuance	-	298,986	-	298,986
Transfer from other funds	-	185,309	270,749	456,058
Transfers to other funds	(185,309)	-	(104,559)	(289,868)
Net other financing sources (uses)	<u>(159,107)</u>	<u>484,295</u>	<u>166,190</u>	<u>491,378</u>
Changes in fund balances	(115,360)	(37,438)	436,937	284,139
Fund balances, beginning of year	<u>850,464</u>	<u>37,438</u>	<u>1,530,390</u>	<u>2,418,292</u>
Fund balances, end of year	<u>\$ 735,104</u>	<u>\$ -</u>	<u>\$ 1,967,327</u>	<u>\$ 2,702,431</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Changes in fund balances of governmental funds	\$ 284,139
Change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.	
Purchases/Acquisitions of capital assets	1,255,748
Depreciation expense	(430,540)
Purchases/Acquisitions of capital assets accounted for in the internal service fund	(299,417)
Depreciation expense accounted for in the internal service fund	118,640
Less loss on disposal of land	(486)
Proceeds from issuance of bonds and capital leases is revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(325,187)
Payments of principal on long-term obligations are expenditures in governmental funds, but the payments reduce long-term liabilities in the statement of net position.	104,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in compensated absences payable	(8,446)
Change in accrued interest on bonds	(12,011)
Change in net pension liability and related deferred outflow	(45,046)
Certain changes in net position of the internal service fund are reported with governmental activities in the statement of activities (net of \$33,629 allocation to business-type activities).	<u>34,016</u>
Change in net position of governmental activities	<u>\$ 675,410</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

June 30, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>	<i>Total</i>	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 93,888	\$ 917,958	\$ 122,254	\$ 1,134,100	\$ 227,620
Investments	-	1,429,988	-	1,429,988	-
Accounts receivable	517,433	329,953	36,602	883,988	336
Accrued interest receivable	-	-	-	-	-
Due from other governments	6,545	521,540	-	528,085	-
Inventory	189,969	56,531	-	246,500	20,345
Total current assets	<u>807,835</u>	<u>3,255,970</u>	<u>158,856</u>	<u>4,222,661</u>	<u>248,301</u>
Noncurrent assets:					
Restricted cash and cash equivalents	87,000	1,742,324	-	1,829,324	-
Restricted investments	1,341,574	1,302,563	-	2,644,137	-
Due from other governments	33,515	-	-	33,515	-
Advance to Water Authority	-	750,000	-	750,000	-
Capital assets not being depreciated	911,552	37,738,441	-	38,649,993	-
Capital assets being depreciated, net	<u>5,642,513</u>	<u>6,350,162</u>	<u>-</u>	<u>11,992,675</u>	<u>924,103</u>
Total noncurrent assets	<u>8,016,154</u>	<u>47,883,490</u>	<u>-</u>	<u>55,899,644</u>	<u>924,103</u>
Total assets	<u>8,823,989</u>	<u>51,139,460</u>	<u>158,856</u>	<u>60,122,305</u>	<u>1,172,404</u>
Deferred outflows of resources:					
Related to pension	<u>187,468</u>	<u>357,590</u>	<u>38,077</u>	<u>583,135</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable	126,693	802,401	32,407	961,501	41,012
Accrued expenses	14,701	22,598	958	38,257	1,917
Deposits payable	34,004	10,559	-	44,563	-
Accrued interest payable	4,072	33,191	-	37,263	146
Current advance payable to other fund	-	-	-	-	21,134
Current compensated absences payable	34,105	34,739	-	68,844	3,444
Current portion of long-term debt	<u>55,000</u>	<u>235,000</u>	<u>-</u>	<u>290,000</u>	<u>42,235</u>
Total current liabilities	<u>268,575</u>	<u>1,138,488</u>	<u>33,365</u>	<u>1,440,428</u>	<u>109,888</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION, CONTINUED

June 30, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>	<i>Total</i>	
Noncurrent liabilities:					
Advance payable to other fund	-	-	-	-	60,034
Compensated absences payable	21,870	16,282	-	38,152	108
Long-term debt	985,000	4,743,608	-	5,728,608	142,903
Net pension liability	<u>672,368</u>	<u>1,275,519</u>	<u>138,319</u>	<u>2,086,206</u>	-
Total noncurrent liabilities	<u>1,679,238</u>	<u>6,035,409</u>	<u>138,319</u>	<u>7,852,966</u>	<u>203,045</u>
Total liabilities	<u>1,947,813</u>	<u>7,173,897</u>	<u>171,684</u>	<u>9,293,394</u>	<u>312,933</u>
Net position:					
Net investment in capital assets	5,514,065	39,109,995	-	44,624,060	738,965
Restricted for:					
Debt service	140,541	424,813	-	565,354	-
Replacement/improvements	1,328,093	2,620,074	-	3,948,167	-
Water supply replacement	-	1,693,540	-	1,693,540	-
Unrestricted	<u>80,945</u>	<u>474,731</u>	<u>25,249</u>	<u>580,925</u>	<u>120,506</u>
Total net position	<u>\$ 7,063,644</u>	<u>\$ 44,323,153</u>	<u>\$ 25,249</u>	<u>\$ 51,412,046</u>	<u>\$ 859,471</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>194,667</u>	
Net position of business-type activities				<u>\$ 51,606,713</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>	<i>Total</i>	
			<i>Solid Waste Fund</i>		
Operating revenues:					
Charges for services	\$ 4,103,086	\$ 2,699,248	\$ 337,533	\$ 7,139,867	\$ -
Penalties	71,154	21,767	8,023	100,944	-
Equipment rental	10,634	-	-	10,634	343,385
Other	14,553	20,832	-	35,385	2,974
	<u>4,199,427</u>	<u>2,741,847</u>	<u>345,556</u>	<u>7,286,830</u>	<u>346,359</u>
Operating revenues					
Operating expenses:					
Personnel	783,631	845,222	87,835	1,716,688	51,385
Contracted services	124,877	239,815	166,443	531,135	8,071
Purchased water	-	407,386	-	407,386	-
Administrative expense	228,963	238,549	13,380	480,892	-
Purchased energy	2,298,095	-	-	2,298,095	-
Other services and charges	287,808	303,067	68,683	659,558	105,987
Depreciation	246,991	389,199	-	636,190	118,640
	<u>3,970,365</u>	<u>2,423,238</u>	<u>336,341</u>	<u>6,729,944</u>	<u>284,083</u>
Operating expenses					
Operating income	<u>229,062</u>	<u>318,609</u>	<u>9,215</u>	<u>556,886</u>	<u>62,276</u>
Non-operating revenues (expenses):					
State SAW grant	-	179,770	-	179,770	-
State SAW grant expenses	-	(199,744)	-	(199,744)	-
Interest income	4,983	12,658	132	17,773	147
Rental income	-	45,138	-	45,138	-
Proceeds from sale of capital assets	-	-	-	-	11,025
Interest expense	(23,113)	(101,577)	-	(124,690)	(5,803)
	<u>(18,130)</u>	<u>(63,755)</u>	<u>132</u>	<u>(81,753)</u>	<u>5,369</u>
Net non-operating revenues (expenses)					
Change in net position before capital contributions and transfers	<u>210,932</u>	<u>254,854</u>	<u>9,347</u>	<u>475,133</u>	<u>67,645</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION, CONTINUED

Year Ended June 30, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>	<i>Total</i>	
Capital contributions and transfers:					
Capital contribution - Federal grant	-	6,008,383	-	6,008,383	-
Capital contribution - City of Alma	-	362,527	-	362,527	-
Transfers to other funds	(96,590)	(61,499)	(8,101)	(166,190)	-
Net capital contributions and transfers	(96,590)	6,309,411	(8,101)	6,204,720	-
Change in net position	114,342	6,564,265	1,246	6,679,853	67,645
Net position, beginning of year	6,949,302	37,758,888	24,003		791,826
Net position, end of year	<u>\$ 7,063,644</u>	<u>\$ 44,323,153</u>	<u>\$ 25,249</u>		<u>\$ 859,471</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				33,629	
Change in net position of business-type activities				<u>\$ 6,713,482</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

	<u>Enterprise Funds</u>				<u>Internal Service Fund</u>
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Nonmajor Solid Waste Fund</u>	<u>Total</u>	
Cash flows from operating activities:					
Cash received from customers	\$ 4,209,884	\$ 2,739,579	\$ 346,709	\$ 7,296,172	\$ 5,151
Cash received for interfund services	-	-	-	-	343,385
Cash payments for interfund					
Cash payments to/for employees	(727,587)	(736,927)	(77,721)	(1,542,235)	(50,276)
Cash payments for goods, services and other	(2,943,475)	(1,194,915)	(241,497)	(4,379,887)	(121,859)
Net cash provided by operating activities	<u>538,822</u>	<u>807,737</u>	<u>27,491</u>	<u>1,374,050</u>	<u>176,401</u>
Cash flows from non-capital financing activities:					
State SAW grant	-	179,770	-	179,770	-
State SAW grant expenses	-	(199,744)	-	(199,744)	-
Transfers from (to) other funds	(96,590)	(61,499)	(8,101)	(166,190)	-
Net cash provided (used) by non-capital financing activities	<u>(96,590)</u>	<u>(81,473)</u>	<u>(8,101)</u>	<u>(186,164)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Settlement from lawsuit (from Trust)	-	3,263,884	-	3,263,884	-
Principal payments on advances	-	-	-	-	(20,717)
Capital contributions	-	9,521,241	-	9,521,241	-
Proceeds from bonds and loans	950,000	349,809	-	1,299,809	216,294
Acquisition of capital assets	(1,213,882)	(11,376,808)	-	(12,590,690)	(261,817)
Proceeds from sale of capital assets	-	-	-	-	11,025
Principal payments on debt	(70,000)	(230,000)	-	(300,000)	(31,156)
Interest paid	(19,041)	(102,109)	-	(121,150)	(5,657)
Net cash provided (used) by capital and related financing activities	<u>(352,923)</u>	<u>1,426,017</u>	<u>-</u>	<u>1,073,094</u>	<u>(92,028)</u>
Cash flows from investing activities:					
Interest received	4,983	14,065	132	19,180	147
Rent received	-	45,138	-	45,138	-
Net cash provided by investing activities	<u>4,983</u>	<u>59,203</u>	<u>132</u>	<u>64,318</u>	<u>147</u>

continued

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2016

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>	<i>Total</i>	
Net increase (decrease) in cash, cash equivalents and investments	94,292	2,211,484	19,522	2,325,298	84,520
Cash, cash equivalents and investments, beginning of year	<u>1,428,170</u>	<u>3,181,349</u>	<u>102,732</u>	<u>4,712,251</u>	<u>143,100</u>
Cash, cash equivalents and investments, end of year	<u>\$ 1,522,462</u>	<u>\$ 5,392,833</u>	<u>\$ 122,254</u>	<u>\$ 7,037,549</u>	<u>\$ 227,620</u>
					continued
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 229,062	\$ 318,609	\$ 9,215	\$ 556,886	\$ 62,276
Adjustments:					
Depreciation	246,991	389,199	-	636,190	118,640
Change in assets and liabilities:					
Accounts receivable	4,229	(40,286)	1,153	(34,904)	2,177
Due from other governments	6,228	38,018	-	44,246	-
Inventory	222	(288)	-	(66)	(2,466)
Accounts payable	(9,322)	(6,056)	7,009	(8,369)	(5,335)
Accrued expenses	1,762	6,317	(124)	7,955	824
Deposits payable	5,368	246	-	5,614	-
Compensated absences	3,094	3,697	-	6,791	285
Net pension liability and related deferred outflow of resources	<u>51,188</u>	<u>98,281</u>	<u>10,238</u>	<u>159,707</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 538,822</u>	<u>\$ 807,737</u>	<u>\$ 27,491</u>	<u>\$ 1,374,050</u>	<u>\$ 176,401</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2016

	<i>Agency Funds</i>
	<u> </u>
Assets:	
Cash and cash equivalents	\$ 214,454
Accounts receivable	<u>6,147</u>
Total assets	<u>\$ 220,601</u>
Liabilities:	
Accrued liabilities	\$ 5,473
Due to other governmental units	<u>215,128</u>
Total liabilities	<u>\$ 220,601</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used by the City of St. Louis, (the “City”):

Reporting Entity:

Located in Gratiot County, Michigan, St. Louis was settled in 1853 along the banks of the Pine River, became a village in 1868, and was incorporated in 1891 as the City of St. Louis. Organized under Michigan’s Comprehensive Home Rule City Act, the City of St. Louis is governed by a single ward, four member elected City Council and the Mayor. The Mayor is elected by the City at large and the City Council selects the mayor Pro Tem. The City Manager is appointed by the Council to administer the business of the City. The City of St. Louis provides the following services to approximately 7,400 residents as authorized by its charter: public safety (police), highways and streets, electric, water, sewer, sanitation, recreation, public improvements, zoning, planning and general administrative services.

Reporting Entity:

The accompanying financial statements present the City as the primary government. Component units are separate legal entities for which the City is financially accountable. Blended component units are, in substance, part of the primary government’s operations, and presented as funds of the primary government. Discretely presented component units are reported in separate columns in the government-wide financial statements. The City has determined that it has two component units; a blended component unit and a discretely presented component unit.

Blended Component Unit:

Building Authority – The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were a part of the primary government because its primary purpose is to finance and construct the City’s public buildings. The Building Authority is reported as a debt service fund.

Discretely Presented Component Unit:

Downtown Development Authority – The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority is comprised of individuals from the management of the City as well as residents who are appointed by the City Council. In addition, the Authority’s budget is approved by the City Council. The Authority does not issue any other formal financial statements except as contained in the City’s annual financial statements. Detail information can be obtained by contacting the City Finance Director.

Related Organization:

St. Louis Housing Commission – St. Louis Housing Commission was created under Public Act 18 of 1933. The City is responsible for appointing the members of the Board of Directors of the St. Louis Housing Commission but the City’s accountability for this organization does not extend beyond making the appointments. The City does receive an annual amount from the Housing Commission as payment in lieu of taxes (PILT) but receives no other financial benefit. The PILT amount received from the Housing Commission during fiscal year ended June 30, 2016 was \$3,149. Complete financial statements for the Housing Commission’s June 30, 2016 year end can be obtained by contacting the Housing Commission, 308 S. Delaware Street, St. Louis, Michigan.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Joint Ventures:

Mid-Michigan Community Fire Board District – The Mid-Michigan Community Fire Board District (the “Fire Board District”) is a joint venture between the City of St. Louis and the Townships of Bethany, Pine River, and Jasper. The governing Board is comprised of five members consisting of one member from each Township and two members from the City. Each unit is responsible for funding its required local contribution to cover operational deficits based on the formula established by the Fire Board District. The City’s operating contribution for the year ended June 30, 2016, was \$98,279. The provisions of the agreement do not explicitly state equity interest. The financial statements can be obtained at the City of St. Louis administration office.

Gratiot Area Water Authority – The Gratiot Area Water Authority is a joint venture between the City of St. Louis and the City of Alma. The purpose of the Authority is to acquire, own, improve, enlarge, extend and operate those portions of the City of Alma and the City of St. Louis water system which provide water treatment and supply to both cities. The governing board is comprised of six trustees, two appointed from each municipality plus the City Managers of each municipality. Funding of the initial improvements is to be provided by St. Louis and US EPA through terms of a Settlement Agreement related to contamination of the St. Louis City Wells. Ongoing the Authority will establish rates to be charged for wholesale water sold to Alma and St. Louis based on its cost of service. The agreement has no stated equity interest provisions. The City of Alma maintains the accounting records for the Authority. It is reported at the end of the City of Alma’s individual fund statements. Copies of the City of Alma financial statements can be obtained by writing to City of Alma, 525 E. Superior, Alma, MI 48801.

Mid-Michigan Area Cable Communications Consortium – The Mid-Michigan Area Cable Communications Consortium is a joint venture between twelve Mid-Michigan communities with cable franchised agreements granted to Charter Communications. The Consortium is responsible for developing and monitoring the enforcement of the cable ordinance, negotiating and monitoring of cable franchise agreements, and, to the extent permitted by federal law, regulate cable rates. Additionally, the Consortium is responsible for the operation of public education and governmental access channels. Each community is permitted to appoint two members of the governing Board.

The City remits 40% of the cable tv franchise fee it receives to the Consortium. For the year ended June 30, 2016, this amounted to \$18,092. The Consortium operates on a calendar year and produces separate financial statements. Per provisions of the agreement, there is no equity interest in the Consortium. Copies of the Mid-Michigan Area Cable Communications Consortium financial statements can be obtained by writing to Carey Hammel, Operations and Administrative Director, 312 West Michigan Street, Mt. Pleasant, MI 48860.

Gratiot Community Airport Authority – The City is a member of the Gratiot Community Airport Authority which operates the only public airport in Gratiot County. Under MCL 259.621, et. Seq. an agreement to establish the Gratiot Community Airport Authority was entered into on February 18, 2009 and amended on January 30, 2012. The Authority is operated by a six person board, one member from each member municipality. The City is required to contribute \$4,000 per year. The City of St. Louis has no stated equity interest. The City of Alma maintains the accounting records for the Authority. It is reported as a proprietary fund in the City of Alma’s financial statements. Copies of the City of Alma financial statements can be obtained by writing to City of Alma, 525 E. Superior, Alma, MI 48801.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Jointly Governed Organization:

Gratiot Area Solid Waste Authority – The City is a member of the Gratiot Area Solid Waste Authority which provides solid waste management services to its members. The Authority negotiates mutually beneficial waste management contracts with third party service providers. Any local governmental unit under Act 7 of 1967 of the Michigan Public Acts is permitted to become a member of the Authority. Each member has one trustee on the board. During the fiscal year ended June 30, 2016, the City paid \$157,705 to the Authority as a customer of solid waste services.

Gratiot County Central Dispatch Authority – The City is a member of Gratiot County Central Dispatch Authority. The Authority provides central dispatch services for police and fire services in Gratiot County. The governing Board is comprised of ten members. The Authority has responsibility for preparing the annual budget, which is approved by Gratiot County, and to carry out all activities of the Authority. The Authority receives funding from telephone surcharge fees and local contributions. A formula has been established to allocate the local contributions. The City made no contribution during the current fiscal year.

Accounting and Reporting Principles:

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation:

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are not included in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Basis of Accounting:

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered.

Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due. Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fund Accounting:

The City accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources - separate funds allow the City to show the particular expenditures that specific revenues were used for. The various funds are aggregated into two broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the following funds as “major” governmental funds:

General Fund is the City’s primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.

Capital Projects Fund – New City Hall Fund accounts for the construction of a new City hall including the bond proceeds received for the construction.

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The City reports the following as “major” enterprise funds:

Enterprise Fund – Electric Fund accounts for the operations of the City’s electric system.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Enterprise Fund – Water and Sewer Fund accounts for the water system and sewage disposal/treatment system.

Additionally, the City reports the following fund types:

Special Revenue Funds – Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Permanent Fund – Permanent Funds account for the resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the government or its citizenry. The City has one permanent fund for cemetery perpetual care.

Internal Service Fund – Motor Pool Fund – The Motor Pool Fund provides vehicle and equipment use to other departments or agencies of the government on a cost reimbursement basis.

Fiduciary Funds – Agency Funds – Agency Funds account for assets held for other governments in an agency capacity, including tax collections.

Specific Balances and Transactions:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents. The investment policy adopted by the City Council is in accordance with Public Act 20 of 1943, as amended. The City's deposits and investments have been made in accordance with statutory authority.

Inventories – Inventories are valued at cost, on a first-in, first-out basis in the proprietary funds. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and similar items), are defined by the City as assets with an individual cost in excess of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40-60 years
Building improvements	15-30 years
Equipment	3-10 years
Infrastructure	5-30 years
Water and sewer systems	50-75 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The General Fund, Electric Fund, Water and Sewer Fund, and debt service funds are generally used to liquidate long-term debt.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting.

Net Position Flow Assumption – Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the City Manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Other classifications of fund balance include: nonspendable fund balance, which are amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact; restricted fund balance, which are amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates); and unassigned fund balance, which are amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. However, unassigned balances also include negative balances in other governmental funds.

Property Taxes – Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund. The 2015 taxable valuation of the City totaled \$50,091,095 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 13.4089 mills for the City's operating purposes and .5000 mills for library operations. In addition, the Library Fund receives a portion of a county tax millage for library operations.

Compensated Absences (vacation and sick leave) – Sick leave is earned at the rate of 10 hours per month, to be accumulated until a maximum of 500 hours is reached, and is kept to the employees credit. If at the end of a fiscal year, an employee has accumulated sick leave greater than 500 hours, one-half of the accumulated sick leave in excess of 500 hours is paid to the employee and the remainder is lost. Sick leave is not paid upon termination. Upon retirement, employees hired before December 20, 1994, are entitled to be paid one half (1/2) of any accumulated unused sick leave at the rate of pay prevailing at the time of such retirement. This liability is measured using the vesting method as described in GASB Statement No. 16. Employees receive vacation time on July 1st based on the prior year's service. A maximum of 200 hours can be earned during the prior year. Added to earned vacation time is a maximum of 40 hours carryover of any prior year unused vacation time. Except for a 40 hour carryover, vacation time is to be used within the year received and is paid to employees upon termination.

Pension Costs – The City offers a defined benefit pension plan to its employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Proprietary Funds Operating Classification – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. The proprietary funds recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system, if any, and as nonoperating revenues rental income and investment income. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not included in these classifications are reported as nonoperating expenses.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Activity:

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets for all governmental funds are adopted in compliance with Michigan Law. The budgets are prepared on the modified accrual basis, which is consistent with generally accepted accounting principles. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the function level for the general fund and special revenue funds. The City does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at the end of the fiscal year and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did incur expenditures in excess of the amounts budgeted for the Assessor by \$538.

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000, reported in the General Fund, is as follows:

Cumulative surplus at July 1, 2015	\$	-
Current year building permit revenue		15,220
Related expenses:		
Direct costs		<u>(96,209)</u>
Cumulative surplus at June 30, 2016	\$	<u>-</u>

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Summary of Deposit and Investment Balances:

The following is a reconciliation of deposit and investment balances as of June 30, 2016:

Statement of Net Position:

Cash and cash equivalents (including restricted):

Primary Government	\$	5,460,577
Component Unit		10,008

Investments (including restricted):

Primary Government		4,278,453
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Statement of Fiduciary Assets and Liabilities:

Cash and cash equivalents:

Agency Funds		<u>214,454</u>
Total	\$	<u>9,963,492</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

Deposits and Investments:

Bank deposits	\$ 5,684,759
Investments:	
Pooled investments - Michigan CLASS	1,776,301
U.S. Agency	1,004,895
Bank deposits	1,497,257
Cash on Hand	<u>280</u>
Total	<u>\$ 9,963,492</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. State law does not require and the City does not have a deposit policy for custodial credit risk. At year end, \$6,617,083 of the City’s bank deposits (certificates of deposit, checking and cash) of \$7,472,915 was exposed to custodial credit risk because they were uninsured and uncollateralized. The City’s investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those with an acceptable risk level are used for depositories.

Interest Rate Risk – Investments – Interest rate risk is the risk that the value of fixed income investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At year end, the average maturities of fixed income security investments are as follows:

<u>Investment Type</u>	<u>Market Value</u>	<u>Less than 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>
U.S. Agency	\$ 1,004,895	\$ -	\$ 1,004,895	\$ -
Bank deposits	1,497,257	2,257	-	1,495,000
Investment Pool	1,776,301	1,776,301	-	-
Total	<u>\$ 4,278,453</u>	<u>\$ 1,778,558</u>	<u>\$ 1,004,895</u>	<u>\$ 1,495,000</u>

Credit Risk – Investments – State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City’s investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the credit quality ratings of fixed income securities are as follow:

<u>Investment Type</u>	<u>Market Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Agency	\$ 1,004,895	Aaa/AA+	Moody's/S&P
Bank deposits	1,497,257	Aa3	Moody's
Investment Pool	1,776,301	AAAm	S&P
Total	<u>\$ 4,278,453</u>		

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. At year end, none of the City’s investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City’s name

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

There are a number of limitations and restrictions contained in the various bond indentures, including requirements to maintain certain restricted assets. The City is in compliance with all significant provisions of the bond indentures. The City Charter also requires utility replacement reserves.

	<i>Restricted Cash and Cash Equivalents</i>	<i>Restricted Investments</i>	<i>Total</i>
Electric Fund:			
Debt service	\$ -	\$ 140,541	\$ 140,541
Replacement/Improvements	87,000	1,201,033	1,288,033
Water and Sewer Fund:			
Debt service	424,813	-	424,813
Replacement/Improvements	1,317,511	1,302,563	2,620,074
	<u>\$ 1,829,324</u>	<u>\$ 2,644,137</u>	<u>\$ 4,473,461</u>

NOTE 5: FAIR VALUE MEASUREMENTS

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The City has the following recurring fair value measurement as of June 30, 2016:

Michigan CLASS investment pool in the amount of \$1,776,301 is valued at Level 2 inputs. The City did not have any investments valued with Level 1 or Level 3 inputs at June 30, 2016.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: CAPITAL ASSETS, CONTINUED

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,330,055	\$ -	\$ (486)	\$ 2,329,569
Construction in progress	<u>2,781,123</u>	<u>852,522</u>	<u>(3,568,087)</u>	<u>65,558</u>
Capital assets not being depreciated	<u>5,111,178</u>	<u>852,522</u>	<u>(3,568,573)</u>	<u>2,395,127</u>
Capital assets being depreciated:				
Buildings and improvements	2,108,477	2,967,704	-	5,076,181
Equipment and vehicles	2,644,539	451,402	(250,763)	2,845,178
Infrastructure - storm sewer	2,701,677	-	-	2,701,677
Infrastructure - streets	22,594,532	505,695	(137,441)	22,962,786
Infrastructure - sidewalks	<u>981,174</u>	<u>46,512</u>	<u>(9,023)</u>	<u>1,018,663</u>
Capital assets being depreciated	<u>31,030,399</u>	<u>3,971,313</u>	<u>(397,227)</u>	<u>34,604,485</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,134,550)	(106,745)	-	(1,241,295)
Equipment and vehicles	(1,872,929)	(144,391)	250,763	(1,766,557)
Infrastructure - storm sewer	(2,353,569)	(54,033)	-	(2,407,602)
Infrastructure - streets	(20,934,754)	(119,910)	137,441	(20,917,223)
Infrastructure - sidewalks	<u>(906,812)</u>	<u>(5,461)</u>	<u>9,023</u>	<u>(903,250)</u>
Accumulated depreciation	<u>(27,202,614)</u>	<u>(430,540)</u>	<u>397,227</u>	<u>(27,235,927)</u>
Capital assets being depreciated, net	<u>3,827,785</u>	<u>3,540,773</u>	<u>-</u>	<u>7,368,558</u>
Governmental activities, capital assets, net	<u>\$ 8,938,963</u>	<u>\$ 4,393,295</u>	<u>\$ (3,568,573)</u>	<u>\$ 9,763,685</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 988,499	\$ 16,993	\$ -	\$ 1,005,492
Construction in progress	<u>29,645,859</u>	<u>8,217,852</u>	<u>(219,210)</u>	<u>37,644,501</u>
Capital assets not being depreciated	<u>30,634,358</u>	<u>8,234,845</u>	<u>(219,210)</u>	<u>38,649,993</u>
Capital assets being depreciated:				
Buildings and improvements	1,164,976	-	-	1,164,976
Equipment	434,018	-	(23,136)	410,882
Electric system	10,482,954	1,069,080	-	11,552,034
Sewer system	12,021,532	58,314	(54,017)	12,025,829
Water system	<u>8,205,154</u>	<u>160,895</u>	<u>(19,856)</u>	<u>8,346,193</u>
Capital assets being depreciated	<u>32,308,634</u>	<u>1,288,289</u>	<u>(97,009)</u>	<u>33,499,914</u>

continued

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to various functions as follows:

	<i>July 1, 2015</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30, 2016</i>
Less accumulated depreciation for:				
Buildings and improvements	(817,878)	(31,526)	-	(849,404)
Equipment	(248,319)	(24,869)	23,136	(250,052)
Electric system	(6,160,297)	(198,549)	-	(6,358,846)
Sewer system	(7,005,891)	(223,499)	54,017	(7,175,373)
Water system	(6,735,673)	(157,747)	19,856	(6,873,564)
Accumulated depreciation	(20,968,058)	(636,190)	97,009	(21,507,239)
Capital assets being depreciated, net	<u>11,340,576</u>	<u>652,099</u>	<u>-</u>	<u>11,992,675</u>
Business-type activities capital assets, net	<u>\$ 41,974,934</u>	<u>\$ 8,886,944</u>	<u>\$ (219,210)</u>	<u>\$ 50,642,668</u>

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
General government	\$ 73,536	\$ -
Public safety	15,002	-
Public works	182,289	-
Recreation and culture	41,073	-
Electric	-	246,991
Water and Sewer	-	389,199
Internal Service Fund	118,640	-
	<u>\$ 430,540</u>	<u>\$ 636,190</u>

NOTE 7: LONG-TERM LIABILITIES

The City may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity for the year ended June 30, 2016 is summarized as follows:

	<i>July 1, 2015</i>	<i>Additions</i>	<i>(Reductions)</i>	<i>June 30, 2016</i>	<i>Due Within One Year</i>
Governmental activities:					
<i>General obligations:</i>					
1996 Building Authority Bonds, principal due in annual installments of \$40,000 through April 2016, interest at 5.70% due semi-annually.	\$ 40,000	-	(40,000)	\$ -	\$ -

continued

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

	<u>July 1, 2015</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
2002 General Obligation Bond, principal due in annual installments of \$45,000 to \$50,000 through October 2017, interest from 4.85-4.90% due semi-annually.	140,000	-	(45,000)	95,000	45,000
2014 Capital Improvement Bond, principal due in annual installments of \$20,000 to \$72,000 through September 2054, interest at 3.50% due semi-annually.	1,301,014	298,986	(19,000)	1,581,000	20,000
2015 Equipment loan, due in monthly installments of \$3,781 including interest at 1.98% through September 2020.	-	216,294	(31,157)	185,137	42,235
2016 Capital lease, due in annual amounts of \$12,861 to \$13,691 through April 2018, interest at 6.50%.	-	41,126	(14,925)	26,201	12,861
<i>Other liabilities:</i>					
Compensated absences	<u>58,354</u>	<u>59,903</u>	<u>(51,173)</u>	<u>67,084</u>	<u>56,480</u>
Governmental activities, long-term liabilities	<u>\$1,539,368</u>	<u>\$ 616,309</u>	<u>\$ (201,255)</u>	<u>\$ 1,954,422</u>	<u>\$ 176,576</u>
Business-type Activities:					
<i>Revenue Bonds:</i>					
2001 Electric Revenue Bonds, principal due in annual installments of \$85,000 through July 2017, interest from 4.95-5.10% due semi-annually.	\$ 160,000	\$ -	\$ (70,000)	\$ 90,000	\$ 5,000
2013 Water Supply and Sewage Disposal Revenue Bond, principal due in annual installments of \$235,000 to \$325,000 through April 1, 2034, interest of 2.00% due semi-annually.	4,858,799	349,809	(230,000)	4,978,608	235,000

continued

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

	<u>July 1, 2015</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
2015 Electric Revenue Bonds, principal due in annual installments of \$50,000 to \$80,000 through November 1, 2031, interest from 1.00-3.55% due semi-annually.	-	950,000	-	950,000	50,000
<i>Other liabilities:</i>					
Compensated absences	<u>100,205</u>	<u>75,635</u>	<u>(68,844)</u>	<u>106,996</u>	<u>68,844</u>
Business-type activities, long-term liabilities	<u>\$5,119,004</u>	<u>\$ 1,375,444</u>	<u>\$ (368,844)</u>	<u>\$ 6,125,604</u>	<u>\$ 358,844</u>
Component Unit:					
Loan payable to Electric Fund, monthly payments of \$700 including interest through December 2021.	<u>\$ 46,288</u>	<u>\$ -</u>	<u>\$ (6,228)</u>	<u>\$ 40,060</u>	<u>\$ 6,545</u>

Annual debt service requirements to maturity for the above obligations (excluding other liabilities) are as follows:

<i>Year Ended</i> <u>June 30,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 120,096	\$ 63,375	\$ 183,471	\$ 290,000	\$ 126,034	\$ 416,034
2018	126,380	58,724	185,104	375,000	120,898	495,898
2019	64,860	55,077	119,937	295,000	113,280	408,280
2020	66,696	53,488	120,184	300,000	107,590	407,590
2021	33,306	52,081	85,387	305,000	101,755	406,755
2022-2026	125,000	247,715	372,715	1,655,000	411,158	2,066,158
2027-2031	150,000	223,653	373,653	1,850,000	219,204	2,069,204
2032-2036	176,000	195,198	371,198	960,000	38,600	998,600
2037-2041	209,000	161,614	370,614	-	-	-
2042-2046	247,000	121,784	368,784	-	-	-
2047-2051	295,000	74,465	369,465	-	-	-
2052-2055	274,000	19,601	293,601	-	-	-
	<u>\$ 1,887,338</u>	<u>\$ 1,326,775</u>	<u>\$ 3,214,113</u>	<u>\$ 6,030,000</u>	<u>\$ 1,238,519</u>	<u>\$ 7,268,519</u>
Less: Amount not drawn				<u>(11,392)</u>		
				<u>\$ 6,018,608</u>		

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

<i>Year Ended</i> <i>June 30,</i>	<i>Component Unit</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2017	\$ 6,545	\$ 1,855	\$ 8,400
2018	6,881	1,519	8,400
2019	7,233	1,167	8,400
2020	7,603	797	8,400
2021	7,992	408	8,400
2022	<u>3,806</u>	<u>52</u>	<u>3,858</u>
	<u>\$ 40,060</u>	<u>\$ 5,798</u>	<u>\$ 45,858</u>

NOTE 8: INTERFUND BALANCES AND TRANSFERS

At year end, the advance between the General Fund and the Internal Service Fund is \$81,168. Annual payments of \$22,600 are required including 2% interest. Final repayment is scheduled for February 2020.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires or allows to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers during the current fiscal year were as follows:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
General Fund	New City Hall Fund	\$ 185,309
Nonmajor Governmental Funds	Nonmajor Governmental Funds	
Major Street Fund	Local Street Fund	31,829
Public Improvement Fund	2002 General Obligation Limited Tax Fund	30,450
T.A. Cutler Memorial Library Fund	Building Authority Fund	42,280
Electric Fund	Nonmajor Governmental Fund	
	Public Improvement Fund	96,590
Water and Sewer Fund	Nonmajor Governmental Fund	
	Public Improvement Fund	61,499
Solid Waste Fund	Nonmajor Governmental Fund	
	Public Improvement Fund	<u>8,101</u>
		<u>\$ 456,058</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 7,254	\$ -	\$ 7,254	\$ -
Accounts	49,312	883,988	933,300	-
Notes/Loans	1,713	-	1,713	-
Intergovernmental	201,004	561,600	762,604	-
Total receivables	<u>\$ 259,283</u>	<u>\$ 1,445,588</u>	<u>\$ 1,704,871</u>	<u>\$ -</u>
Accounts payable and accrued expenses:				
Accounts	\$ 128,620	\$ 961,501	\$ 1,090,121	\$ 59
Payroll liabilities	52,223	38,257	90,480	-
Deposits payable	12,260	44,563	56,823	-
Accrued interest	19,745	37,263	57,008	-
Intergovernmental	3,174	-	3,174	-
Total accounts payable and accrued expenses	<u>\$ 216,022</u>	<u>\$ 1,081,584</u>	<u>\$ 1,297,606</u>	<u>\$ 59</u>

Included in the business-type activities' intergovernmental amount is a receivable balance of \$40,060 due from the Downtown Development Authority. Of this amount, \$6,545 is considered current and the remaining \$33,515 is long-term.

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City manages risk through the purchase of commercial insurance. There was no change in coverage from the prior year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

Liability, vehicle physical damage and property and crime – The City is a member of the Michigan Municipal Liability and Property Pool, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The City is insured up to the following limits: Liability - \$5,000,000, vehicle physical damage - \$5,000,000 and property and crime - \$5,000,000, subject to deductibles of \$1,000, \$100-\$250 and \$5,000, respectively. When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are increased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The Plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the Plan are available.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 10: RISK MANAGEMENT, CONTINUED

Worker's compensation – The City purchases coverage through the Michigan Municipal Workers' Compensation Fund. The Fund is authorized by State law to provide its members with coverage required by the Workers' Disability Compensation Act. Claims are subject to a maximum limit of \$500,000 per occurrence.

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS

The City has two employee pension plans: a Defined Contribution Plan and a Defined Benefit Plan (closed to all new hires beginning July 1, 1999), both administered by the MERS Retirement Board, of the Municipal Employee's Retirement System of Michigan (MERS).

Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan):

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, if any, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description – The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided – The following are the benefits provided from the December 31, 2015 valuation. All divisions are closed to new hires.

	<u>General NonUnion</u>	<u>Police & Fire</u>
Benefit Multiplier:	2.50% Multiplier (80% Max)	2.25% Multiplier (80% Max)
Normal Retirement Age:	60	60
Vesting:	6 years	6 years
Early Retirement (Unreduced):	55/25	55/25
Early Retirement (Reduced):	50/25	50/25
	55/15	55/15
Final Average Compensation:	5 years	5 years
Employee Contributions:	4.88%	0.53%
DC Plan for New Hires:	6/15/1998	1/1/2000
Act 88:	Yes (Adopted 11/18/1970)	Yes (Adopted 11/18/1970)

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

	<u>City Manager</u>	<u>Electric Union</u>
Benefit Multiplier:	2.50% Multiplier (80% Max)	2.50% Multiplier (80% Max)
Normal Retirement Age:	60	60
Vesting:	6 years	6 years
Early Retirement (Unreduced):	55/15	55/25
Early Retirement (Reduced):	50/25	50/25
		55/15
Final Average Compensation:	3 years	5 years
COLA for Future Retirees:	2.50% (Non-Compound)	
Employee Contributions:	2.00%	4.88%
DC Plan for New Hires:	6/1/2013	7/1/1999
Act 88:	Yes (Adopted 11/18/1970)	Yes (Adopted 11/18/1970)

Employees covered by benefit terms – At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	31
Inactive employees entitled to but not yet receiving benefits:	5
Active employees:	<u>5</u>
Total	<u><u>41</u></u>

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may establish contribution rates to be paid by its covered employees.

City required contributions of \$278,892, for the current year, were \$132,540 for General NonUnion, \$1,224 Police & Fire, \$6,144 City Manager, and \$138,984 Electric Union. These amounts are equal to the actuarially determined contribution based on the valuation payroll from the December 31, 2013 actuarial valuation. The City also contributed an additional \$100,000 to the pension plan during the year.

Net Pension Liability – The City's net pension liability reported at June 30, 2016 was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 2.5%; Salary Increases: 3.75% in the long-term; Investment rate of return: 7.75%, net of investment and administrative expenses including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that City and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for the City. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in net pension liability during the measurement year were as follows:

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/14	\$ 7,587,988	\$ 5,664,770	\$ 1,923,218
Service cost	30,251	-	30,251
Interest on total pension liability	601,032	-	601,032
Difference between expected and actual experience	(118,385)	-	(118,385)
Changes in assumptions	398,731	-	398,731
Employer contributions	-	351,822	(351,822)
Employee contributions	-	12,535	(12,535)
Net investment income (loss)	-	(83,639)	83,639
Benefit payments, including employee refunds	(635,752)	(635,752)	-
Administrative expenses	-	(12,249)	12,249
Other changes	2	-	2
Net changes	275,879	(367,283)	643,162
Balances at 12/31/15	<u>\$ 7,863,867</u>	<u>\$ 5,297,487</u>	<u>\$ 2,566,380</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

The net pension liability is recorded as follows:

Governmental activities	\$ 480,174
Business-type activities	<u>2,086,206</u>
	<u>\$ 2,566,380</u>

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 8.25%, as well as what the City’s net pension liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1 percentage point higher (9.25%) than the current rate.

	<u>1% Decrease Rate 7.25%</u>	<u>Current Rate 8.25%</u>	<u>1% Increase Rate 9.25%</u>
Net pension liability	\$ -	\$ 2,566,380	\$ -
Change in net pension liability	<u>729,603</u>	<u>-</u>	<u>(629,813)</u>
	<u>\$ 3,295,983</u>	<u>\$ 2,566,380</u>	<u>\$ 1,936,567</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2016; the City recognized pension expense, on the defined benefit plan, of \$583,645. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 491,687	\$ -
Contributions subsequent to the measurement date	<u>239,446</u>	<u>-</u>
	<u>\$ 731,133</u>	<u>\$ -</u>

The deferred outflows of resources are recorded as follows:

Governmental activities	\$ 147,998
Business-type activities	<u>583,135</u>
	<u>\$ 731,133</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$239,446), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS, CONTINUED

<i>Year Ended</i>	<i>Amount</i>
2017	\$ 127,943
2018	127,943
2019	127,943
2020	107,858

Pension Plan Fiduciary Net Position – Detailed information about the plan’s fiduciary net position is available in the separately issued financial report found at www.mersofmichigan.com. The plan’s fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Defined Contribution Pension Plan (Municipal Employees’ Retirement System of Michigan):

Beginning July 1, 1999, all new hires are eligible to participate in the Defined Contribution Money Purchase Plan. This is the only pension plan available to new hires after that date. The plan is a single employer defined contribution pension plan, established by the City and administered by MERS Retirement Board. The City’s contribution is 8% of each participant’s wages for the plan year contingent upon the participant electing to contribute 3% of earnings. The participants’ contributions are immediately 100% vested and the City’s contributions are vested over a five year period. Employer contributions for the plan were \$112,981 for the year ended June 30, 2016. Employee contributions for the plan were \$42,186 for the year ended June 30, 2016. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE 12: RESTRICTED NET POSITION

The governmental activities statement of net position reports \$1,356,660 of restricted net position, of which \$908,595 is restricted by Act 51 enabling legislation.

NOTE 13: BOND PROJECTS IN PROGRESS

Bond Issuance Proceeds – On September 17, 2013, the City issued Water Supply and Sewage Disposal System Revenue Bond, Series 2013 for \$5,445,000 to provide for the acquisition, construction, furnishing and equipping of improvements to the water supply and sewage disposal system of the City. As of June 30, 2016, there is \$11,392 left on the bond to draw.

NOTE 14: CONSTRUCTION COMMITMENTS

The City has entered into several in process construction contracts for replacement of the water supply system. As of June 30, 2016, the City had outstanding work to be completed on construction contracts totaling \$1,298,157 that will be financed with grant proceeds and operating funds. The remaining construction commitments, on these projects in process, are shown below:

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 14: CONSTRUCTION COMMITMENTS, CONTINUED

	<u>Construction Commitments</u>
Water supply replacement	\$ 1,298,157

NOTE 15: SEGMENT REPORTING

The City issues revenue bonds to finance its water and sewer departments. The two departments are accounted for in a single fund, but investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each department is presented below. The water department operates the City's water supply system. The sewer department operates the City's sewage system.

	<u>Water Department</u>	<u>Sewer Department</u>
CONDENSED STATEMENT OF NET POSITION		
Assets:		
Cash, cash equivalents and investments	\$ 1,034,091	\$ 2,928,754
Other assets	2,879,046	208,966
Capital assets, net	<u>33,521,501</u>	<u>10,567,102</u>
Total assets	<u>37,434,638</u>	<u>13,704,822</u>
Deferred outflows of resources:		
Related to pension	<u>201,856</u>	<u>155,734</u>
Liabilities:		
Current liabilities	722,132	181,357
Noncurrent liabilities	<u>725,113</u>	<u>5,545,295</u>
Total liabilities	<u>1,447,245</u>	<u>5,726,652</u>
Net position:		
Net investment in capital assets	33,521,501	5,588,494
Restricted	2,560,500	2,177,927
Unrestricted	<u>107,248</u>	<u>367,483</u>
Total net position	<u>\$ 36,189,249</u>	<u>\$ 8,133,904</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 14: SEGMENT REPORTING, CONTINUED

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues	\$ 1,203,535	\$ 1,538,312
Depreciation expense	(163,322)	(225,877)
Other operating expenses	<u>(1,239,549)</u>	<u>(794,489)</u>
Operating income (loss)	(199,336)	517,946
Nonoperating revenues (expenses):		
Investment income	8,560	4,097
Rental income	45,138	-
State grant	-	179,770
State grant expenses	-	(199,744)
Interest expense		(101,577)
Capital contributions	6,370,910	-
Transfers out	<u>(27,675)</u>	<u>(33,824)</u>
Change in net position	6,197,597	366,668
Beginning net position	<u>29,991,652</u>	<u>7,767,236</u>
Ending net position	<u>\$ 36,189,249</u>	<u>\$ 8,133,904</u>

NOTE 15: UPCOMING ACCOUNTING PRONOUNCEMENTS

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will require governments to disclose in their financial statements information related to tax abatement agreements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. LOUIS

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2015</u>	<u>2014</u>
Service cost	\$ 30,251	\$ 30,348
Interest on total pension liability	601,032	600,818
Difference between expected and actual experience	(118,385)	-
Changes in assumptions	398,731	-
Benefit payments, including employee refunds	(635,752)	(621,289)
Other changes	<u>2</u>	<u>-</u>
Net change in total pension liability	275,879	9,877
Total pension liability - beginning	<u>7,587,988</u>	<u>7,578,111</u>
Total pension liability - ending	<u>\$ 7,863,867</u>	<u>\$ 7,587,988</u>
Plan fiduciary net position		
Contributions - employer	\$ 351,822	\$ 451,191
Contributions - employee	12,535	14,871
Net investment income (loss)	(83,639)	345,343
Benefit payments, including employee refunds	(635,752)	(621,289)
Administrative expenses	<u>(12,249)</u>	<u>(12,669)</u>
Net change in plan fiduciary net position	(367,283)	177,447
Total plan fiduciary net position - beginning	<u>5,664,770</u>	<u>5,487,323</u>
Total plan fiduciary net position - ending	<u>\$ 5,297,487</u>	<u>\$ 5,664,770</u>
City's net pension liability	\$ 2,566,380	\$ 1,923,218
Plan fiduciary net position as a percentage of the total pension liability	67.36%	74.65%
Covered employee payroll	\$ 311,442	\$ 311,066
City's net pension liability as a percentage of covered payroll	824.03%	618.27%

CITY OF ST. LOUIS

SCHEDULE OF CITY DEFINED BENEFIT PLAN PENSION CONTRIBUTIONS

Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 278,892	\$ 332,885	\$ 266,620	\$ 229,954	\$ 209,579
Contributions in relation to the actuarially determined contribution	<u>378,892</u>	<u>428,885</u>	<u>717,523</u>	<u>389,061</u>	<u>270,779</u>
Contribution (excess) deficiency	<u>\$ (100,000)</u>	<u>\$ (96,000)</u>	<u>\$ (450,903)</u>	<u>\$ (159,107)</u>	<u>\$ (61,200)</u>
Covered-employee payroll	\$ 435,849	\$ 470,555	\$ 572,413	\$ 620,970	\$ 662,112
Actuarially determined contribution as a percentage of covered-employee payroll	64%	71%	47%	37%	32%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially determined contribution	\$ 182,090	\$ 128,748	\$ 122,168	\$ 116,968	\$ 86,907
Contributions in relation to the actuarially determined contribution	<u>252,207</u>	<u>163,548</u>	<u>146,168</u>	<u>141,211</u>	<u>110,907</u>
Contribution (excess) deficiency	<u>\$ (70,117)</u>	<u>\$ (34,800)</u>	<u>\$ (24,000)</u>	<u>\$ (24,243)</u>	<u>\$ (24,000)</u>
Covered-employee payroll	\$ 673,346	\$ 688,459	\$ 654,213	\$ 852,428	\$ 803,382
Actuarially determined contribution as a percentage of covered-employee payroll	27%	19%	19%	14%	11%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31 each year, 18 months prior to the beginning of the fiscal year in which contributions are required.

Methods and assumptions used to determine contribution rates for the December 31, 2015 valuation:

Actuarial cost method	Entry-age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75% net of investment and administrative expense including inflation
Retirement age	50-60 years of age depending on years of service credited
Mortality	RP-2014 Group Annuity Mortality Table of a 50% Male - 50% Female blend
Assumption and method changes	Mortality table was adjusted to reflect longer lifetimes Assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75% Asset smoothing was changed from 10 to 5 years

CITY OF ST. LOUIS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 675,296	\$ 655,715	\$ 653,659	\$ (2,056)
Licenses and permits	12,000	12,865	15,220	2,355
Intergovernmental	696,972	672,597	691,554	18,957
Charges for services	535,021	580,851	590,598	9,747
Fines and forfeits	3,200	1,150	1,453	303
Interest and rents	7,280	13,515	14,967	1,452
Other revenue	8,000	62,554	155,319	92,765
Total revenues	<u>1,937,769</u>	<u>1,999,247</u>	<u>2,122,770</u>	<u>123,523</u>
Expenditures:				
Current				
General government				
Legislative	25,600	20,075	19,963	(112)
Executive	37,905	30,590	28,282	(2,308)
Clerk	34,010	31,482	29,209	(2,273)
Assessor	42,635	35,695	36,233	538
Finance Director/Treasurer	70,660	64,316	61,225	(3,091)
Elections	18,620	18,650	16,637	(2,013)
City hall	170,400	255,499	253,152	(2,347)
Corporate council	20,000	2,000	1,000	(1,000)
Cemetery	111,300	98,490	98,363	(127)
Total general government	<u>531,130</u>	<u>556,797</u>	<u>544,064</u>	<u>(12,733)</u>
Public safety				
Police	696,560	657,943	657,647	(296)
Fire	98,300	98,300	98,279	(21)
Building inspection/Code enforcement	92,726	98,744	97,156	(1,588)
Total public safety	<u>887,586</u>	<u>854,987</u>	<u>853,082</u>	<u>(1,905)</u>
Public works				
Department of public works	<u>152,660</u>	<u>123,395</u>	<u>103,151</u>	<u>(20,244)</u>
Community and economic development				
Planning	11,350	8,500	8,071	(429)
Economic and community development	88,125	88,000	87,512	(488)
Industrial Park	5,800	770	729	(41)
Community promotion	11,000	22,200	15,437	(6,763)
Total community and economic development	<u>116,275</u>	<u>119,470</u>	<u>111,749</u>	<u>(7,721)</u>

continued

CITY OF ST. LOUIS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended June 30, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Recreation and culture				
Parks and recreation - pool	52,450	40,620	34,795	(5,825)
Parks maintenance	299,370	320,600	319,680	(920)
Total recreation and culture	351,820	361,220	354,475	(6,745)
Other				
Pension liability contribution	-	63,200	50,653	(12,547)
Debt service	90,550	61,849	61,849	-
Total expenditures	2,130,021	2,140,918	2,079,023	(61,895)
Excess (deficiency) of revenues over expenditures	(192,252)	(141,671)	43,747	185,418
Other financing sources (uses):				
Capital lease financing	-	-	26,202	26,202
Transfers to other funds	-	(187,000)	(185,309)	1,691
Net other financing sources (uses)	-	(187,000)	(159,107)	27,893
Change in fund balance	(192,252)	(328,671)	(115,360)	213,311
Fund balance, beginning of year	850,464	850,464	850,464	-
Fund balance, end of year	\$ 658,212	\$ 521,793	\$ 735,104	\$ 213,311

OTHER SUPPLEMENTARY INFORMATION

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2016

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>T.A.Cutler Memorial Library Fund</u>	<u>Building Authority Fund</u>	<u>2002 General Obligation Limited Tax Fund</u>
Assets:					
Cash and cash equivalents	\$ 550,195	\$ 304,853	\$ 266,353	\$ 509	\$ 9,617
Taxes receivable	-	-	372	-	-
Accounts receivable	309	-	-	-	-
Due from other governments	54,930	37,896	-	-	-
Total assets	<u>\$ 605,434</u>	<u>\$ 342,749</u>	<u>\$ 266,725</u>	<u>\$ 509</u>	<u>\$ 9,617</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 9,593	\$ 26,025	\$ 3,681	\$ -	\$ -
Accrued expenses	1,224	2,746	3,501	-	-
Total liabilities	<u>10,817</u>	<u>28,771</u>	<u>7,182</u>	<u>-</u>	<u>-</u>
Fund balances:					
Nonspendable:					
Nonexpendable cemetery principal	-	-	-	-	-
Restricted for:					
Streets	594,617	313,978	-	-	-
Library operations	-	-	259,543	-	-
Debt service	-	-	-	509	9,617
Assigned to:					
Capital improvements	-	-	-	-	-
Cemetery operations	-	-	-	-	-
Total fund balances	<u>594,617</u>	<u>313,978</u>	<u>259,543</u>	<u>509</u>	<u>9,617</u>
Total liabilities and fund balances	<u>\$ 605,434</u>	<u>\$ 342,749</u>	<u>\$ 266,725</u>	<u>\$ 509</u>	<u>\$ 9,617</u>

continued

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

June 30, 2016

	<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	
	<u>Public Improvement Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 574,837	\$ 214,226	\$ 1,920,590
Taxes receivable	-	-	372
Accounts receivable	-	-	309
Due from other governments	-	-	92,826
	<u>574,837</u>	<u>214,226</u>	<u>920,762</u>
Total assets	<u>\$ 574,837</u>	<u>\$ 214,226</u>	<u>\$ 2,014,097</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 39,299
Accrued expenses	-	-	7,471
	<u>-</u>	<u>-</u>	<u>46,770</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>46,770</u>
Fund balances:			
Nonspendable:			
Nonexpendable cemetery principal	-	178,396	178,396
Restricted for:			
Streets	-	-	908,595
Library operations	-	-	259,543
Debt service	-	-	10,126
Assigned to:			
Capital improvements	574,837	-	574,837
Cemetery operations	-	35,830	35,830
	<u>574,837</u>	<u>214,226</u>	<u>1,967,327</u>
Total fund balances	<u>574,837</u>	<u>214,226</u>	<u>1,967,327</u>
Total liabilities and fund balances	<u>\$ 574,837</u>	<u>\$ 214,226</u>	<u>\$ 2,014,097</u>

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>T.A.Cutler Memorial Library Fund</u>	<u>Building Authority Fund</u>	<u>2002 General Obligation Limited Tax Fund</u>
Revenues:					
Property taxes	\$ -	\$ -	\$ 185,371	\$ -	\$ -
Federal grants	41,529	-	-	-	-
State grants	337,430	194,933	7,219	-	-
Contributions from other units	-	-	-	-	20,300
Charges for services	-	-	2,550	-	-
Fines and forfeits	-	-	104,053	-	-
Interest and rents	561	295	224	8	6
Other revenue	4,207	479	15,884	-	-
Total revenues	<u>383,727</u>	<u>195,707</u>	<u>315,301</u>	<u>8</u>	<u>20,306</u>
Expenditures:					
Current					
Public works	126,853	171,731	-	-	-
Recreation and culture	-	-	147,565	-	-
Capital outlay	109,857	-	-	-	-
Debt service					
Principal	-	-	-	40,000	45,000
Interest and fees	-	-	-	2,298	6,513
Total expenditures	<u>236,710</u>	<u>171,731</u>	<u>147,565</u>	<u>42,298</u>	<u>51,513</u>
Excess (deficiency) of revenues over expenditures	<u>147,017</u>	<u>23,976</u>	<u>167,736</u>	<u>(42,290)</u>	<u>(31,207)</u>
Other financing sources (uses):					
Transfers from other funds	-	31,829	-	42,280	30,450
Transfers to other funds	<u>(31,829)</u>	<u>-</u>	<u>(42,280)</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>(31,829)</u>	<u>31,829</u>	<u>(42,280)</u>	<u>42,280</u>	<u>30,450</u>
Changes in fund balances	115,188	55,805	125,456	(10)	(757)
Fund balances, beginning of year	<u>479,429</u>	<u>258,173</u>	<u>134,087</u>	<u>519</u>	<u>10,374</u>
Fund balances, end of year	<u>\$ 594,617</u>	<u>\$ 313,978</u>	<u>\$ 259,543</u>	<u>\$ 509</u>	<u>\$ 9,617</u>

continued

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended June 30, 2016

	<i>Capital Projects Fund</i>	<i>Permanent Fund</i>	
	<i>Public Improvement Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total</i>
Revenues:			
Property taxes	\$ -	\$ -	\$ 185,371
Federal grants	-	-	41,529
State grants	-	-	539,582
Contributions from other units	-	-	20,300
Charges for services	-	3,394	5,944
Fines and forfeits	-	-	104,053
Interest and rents	549	1,572	3,215
Other revenue	-	-	20,570
Total revenues	<u>549</u>	<u>4,966</u>	<u>920,564</u>
Expenditures:			
Current			
Public works	-	-	298,584
Recreation and culture	-	-	147,565
Capital outlay	-	-	109,857
Debt service			
Principal	-	-	85,000
Interest and fees	-	-	8,811
Total expenditures	<u>-</u>	<u>-</u>	<u>649,817</u>
Excess (deficiency) of revenues over expenditures	<u>549</u>	<u>4,966</u>	<u>270,747</u>
Other financing sources (uses):			
Transfers from other funds	166,190	-	270,749
Transfers to other funds	<u>(30,450)</u>	<u>-</u>	<u>(104,559)</u>
Net other financing sources (uses)	<u>135,740</u>	<u>-</u>	<u>166,190</u>
Changes in fund balances	136,289	4,966	436,937
Fund balances, beginning of year	<u>438,548</u>	<u>209,260</u>	<u>1,530,390</u>
Fund balances, end of year	<u>\$ 574,837</u>	<u>\$ 214,226</u>	<u>\$ 1,967,327</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

COMBINING STATEMENT OF NET POSITION

June 30, 2016

	<i>Water and Sewer Operations Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Assets:			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 917,958	\$ -	\$ 917,958
Investments	-	1,429,988	1,429,988
Accounts receivable	329,953	-	329,953
Due from other governments	3,417	518,123	521,540
Inventory	56,531	-	56,531
Total current assets	<u>1,307,859</u>	<u>1,948,111</u>	<u>3,255,970</u>
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents	1,742,324	-	1,742,324
Restricted investments	1,302,563	-	1,302,563
Advance to Water Authority	-	750,000	750,000
Capital assets not being depreciated	6,127,304	31,611,137	37,738,441
Capital assets being depreciated, net	6,350,162	-	6,350,162
Total noncurrent assets	<u>15,522,353</u>	<u>32,361,137</u>	<u>47,883,490</u>
Total assets	<u>16,830,212</u>	<u>34,309,248</u>	<u>51,139,460</u>
Deferred outflows of resources:			
Related to pension	<u>357,590</u>	<u>-</u>	<u>357,590</u>
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	167,792	634,609	802,401
Accrued expenses	22,598	-	22,598
Due to other funds	(369,962)	369,962	-
Deposits payable	10,559	-	10,559
Accrued interest payable	33,191	-	33,191
Current compensated absences	34,739	-	34,739
Current long-term debt	235,000	-	235,000
Total current liabilities	<u>133,917</u>	<u>1,004,571</u>	<u>1,138,488</u>
<i>Noncurrent liabilities:</i>			
Compensated absences payable	16,282	-	16,282
Long-term debt, net current portion	4,743,608	-	4,743,608
Net pension liability	1,275,519	-	1,275,519
Total noncurrent liabilities	<u>6,035,409</u>	<u>-</u>	<u>6,035,409</u>
Total liabilities	<u>6,169,326</u>	<u>1,004,571</u>	<u>7,173,897</u>

continued

CITY OF ST. LOUIS

WATER AND SEWER FUND

COMBINING STATEMENT OF NET POSITION, CONTINUED

June 30, 2016

	<i>Water Sewer Operations Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Net position:			
Net investment in capital assets	7,498,858	31,611,137	39,109,995
Restricted for:			
Debt service	424,813	-	424,813
Replacement/improvements	2,620,074	-	2,620,074
Water supply replacement	-	1,693,540	1,693,540
Unrestricted	<u>474,731</u>	<u>-</u>	<u>474,731</u>
Total net position	<u>\$ 11,018,476</u>	<u>\$ 33,304,677</u>	<u>\$ 44,323,153</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2016

	<i>Water Sewer Operations Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Operating revenues:			
Charges for services	\$ 2,699,248	\$ -	\$ 2,699,248
Penalties	21,767	-	21,767
Other	20,832	-	20,832
Total operating revenues	<u>2,741,847</u>	<u>-</u>	<u>2,741,847</u>
Operating expenses:			
Personnel	845,144	-	845,144
Contracted services	239,892	-	239,892
Purchase of water	407,386	-	407,386
Administrative expense	238,549	-	238,549
Other services and supplies	303,067	-	303,067
Depreciation	389,199	-	389,199
Total operating expenses	<u>2,423,237</u>	<u>-</u>	<u>2,423,237</u>
Operating income (loss)	<u>318,610</u>	<u>-</u>	<u>318,610</u>
Non-operating revenues (expenses):			
State SAW grant	179,770	-	179,770
State SAW grant expenses	(199,744)	-	(199,744)
Interest income	6,116	6,541	12,657
Rental income	45,138	-	45,138
Interest expense	(101,577)	-	(101,577)
Net non-operating revenues (expenses)	<u>(70,297)</u>	<u>6,541</u>	<u>(63,756)</u>
Change in net position before capital contributions and transfers	<u>248,313</u>	<u>6,541</u>	<u>254,854</u>
Capital contributions and transfers:			
Capital contributions - Federal grant	-	6,008,383	6,008,383
Capital contributions - City of Alma	-	362,527	362,527
Transfer to other funds	(61,499)	-	(61,499)
Total capital contributions and transfers	<u>(61,499)</u>	<u>6,370,910</u>	<u>6,309,411</u>
Change in net position	186,814	6,377,451	6,564,265
Net position, beginning of year	<u>10,831,662</u>	<u>26,927,226</u>	<u>37,758,888</u>
Net position, end of year	<u>\$ 11,018,476</u>	<u>\$ 33,304,677</u>	<u>\$ 44,323,153</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2016

1996 BUILDING AUTHORITY BONDS (GENERAL OBLIGATION LIMITED TAX)

Issue in the amount of	\$ 425,000
Less: Principal paid in prior years	(385,000)
Principal paid in current year	<u>(40,000)</u>
Balance payable at June 30, 2016	<u><u>\$ -</u></u>

2002 GENERAL OBLIGATION LIMITED TAX BONDS

Issue in the amount of	\$ 500,000
Less: Principal paid in prior years	(360,000)
Principal paid in current year	<u>(45,000)</u>
Balance payable at June 30, 2016	<u><u>\$ 95,000</u></u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>October 1</u>	<u>Interest due</u> <u>October 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2017	4.85%	\$ 45,000	\$ 2,316	\$ 1,225	\$ 48,541
2018	4.90%	<u>50,000</u>	<u>1,225</u>	<u>-</u>	<u>51,225</u>
		<u><u>\$ 95,000</u></u>	<u><u>\$ 3,541</u></u>	<u><u>\$ 1,225</u></u>	<u><u>\$ 99,766</u></u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2016

2014 CAPITAL IMPROVEMENT BOND (LIMITED TAX GENERAL OBLIGATION) (TAXABLE)

Issue in the amount of	\$ 1,600,000
Less: Principal paid in prior years	-
Principal paid in current year	<u>(19,000)</u>
Balance payable at June 30, 2016	<u>\$ 1,581,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>September 1</u>	<u>Interest due</u> <u>September 1</u>	<u>Interest due</u> <u>March 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2017	3.500%	\$ 20,000	\$ 27,668	\$ 27,318	\$ 74,986
2018	3.500%	20,000	27,318	26,968	74,286
2019	3.500%	21,000	26,968	26,600	74,568
2020	3.500%	22,000	26,600	26,215	74,815
2021	3.500%	22,000	26,215	25,830	74,045
2022	3.500%	23,000	25,830	25,428	74,258
2023	3.500%	24,000	25,428	25,008	74,436
2024	3.500%	25,000	25,008	24,570	74,578
2025	3.500%	26,000	24,570	24,115	74,685
2026	3.500%	27,000	24,115	23,643	74,758
2027	3.500%	28,000	23,643	23,153	74,796
2028	3.500%	29,000	23,153	22,645	74,798
2029	3.500%	30,000	22,645	22,120	74,765
2030	3.500%	31,000	22,120	21,578	74,698
2031	3.500%	32,000	21,578	21,018	74,596
2032	3.500%	33,000	21,018	20,440	74,458
2033	3.500%	34,000	20,440	19,845	74,285
2034	3.500%	35,000	19,845	19,233	74,078
2035	3.500%	36,000	19,233	18,603	73,836
2036	3.500%	38,000	18,603	17,938	74,541
2037	3.500%	39,000	17,938	17,255	74,193
2038	3.500%	40,000	17,255	16,555	73,810
2039	3.500%	42,000	16,555	15,820	74,375
2040	3.500%	43,000	15,820	15,068	73,888
2041	3.500%	45,000	15,068	14,280	74,348
2042	3.500%	46,000	14,280	13,475	73,755
2043	3.500%	48,000	13,475	12,635	74,110
2044	3.500%	49,000	12,635	11,778	73,413
2045	3.500%	51,000	11,778	10,885	73,663
2046	3.500%	53,000	10,885	9,958	73,843
2047	3.500%	55,000	9,958	8,995	73,953

continued

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

June 30, 2016

2014 CAPITAL IMPROVEMENT BOND (LIMITED TAX GENERAL OBLIGATION) (TAXABLE)

<i><u>Fiscal Year Ended</u></i>	<i><u>Interest Rate</u></i>	<i><u>Principal due September 1</u></i>	<i><u>Interest due September 1</u></i>	<i><u>Interest due March 1</u></i>	<i><u>Total Annual Requirement</u></i>
2048	3.500%	57,000	8,995	7,998	73,993
2049	3.500%	59,000	7,998	6,965	73,963
2050	3.500%	61,000	6,965	5,898	73,863
2051	3.500%	63,000	5,898	4,795	73,693
2052	3.500%	65,000	4,795	3,658	73,453
2053	3.500%	67,000	3,658	2,485	73,143
2054	3.500%	70,000	2,485	1,260	73,745
2055	3.500%	72,000	1,260	-	73,260
		<u>\$ 1,581,000</u>	<u>\$ 669,699</u>	<u>\$ 642,031</u>	<u>\$ 2,892,730</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2016

2015 EQUIPMENT LOAN

Issue in the amount of	\$ 216,294
Less: Principal paid in prior years	-
Principal paid in current year	<u>(31,157)</u>
Balance payable at June 30, 2016	<u>\$ 185,137</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Principal due</i>	<i>Interest due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2017	1.980%	\$ 42,235	\$ 3,134	\$ 45,369
2018	1.980%	43,040	2,329	45,369
2019	1.980%	43,860	1,509	45,369
2020	1.980%	44,696	673	45,369
2021	1.980%	<u>11,306</u>	<u>36</u>	<u>11,342</u>
		<u>\$ 185,137</u>	<u>\$ 7,681</u>	<u>\$ 192,818</u>

2016 CAPITAL LEASE

Issue in the amount of	\$ 41,126
Less: Principal paid in prior years	-
Principal paid in current year	<u>(14,925)</u>
Balance payable at June 30, 2016	<u>\$ 26,201</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Principal due</i>	<i>Interest due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2017	6.500%	\$ 12,861	\$ 1,714	\$ 14,575
2018	6.500%	<u>13,340</u>	<u>884</u>	<u>14,224</u>
		<u>\$ 26,201</u>	<u>\$ 2,598</u>	<u>\$ 28,799</u>

CITY OF ST. LOUIS

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2016

2001 ELECTRIC REVENUE BONDS

Issue in the amount of	\$ 995,000
Less: Principal paid in prior years	(835,000)
Principal paid in current year	<u>(70,000)</u>
Balance payable at June 30, 2016	<u>\$ 90,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>July 1</u>	<u>Interest due</u> <u>July 1</u>	<u>Interest due</u> <u>January 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2017	4.950%	\$ 5,000	\$ -	\$ 2,168	\$ 7,168
2018	5.100%	<u>85,000</u>	<u>2,168</u>	<u>-</u>	<u>87,168</u>
		<u>\$ 90,000</u>	<u>\$ 2,168</u>	<u>\$ 2,168</u>	<u>\$ 94,336</u>

2015 ELECTRIC REVENUE BONDS

Issue in the amount of	\$ 950,000
Less: Principal paid in prior years	-
Principal paid in current year	<u>-</u>
Balance payable at June 30, 2016	<u>\$ 950,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>November 1</u>	<u>Interest due</u> <u>November 1</u>	<u>Interest due</u> <u>May 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2017	1.000%	\$ 50,000	\$ 12,215	\$ 11,965	\$ 74,180
2018	1.200%	50,000	11,965	11,665	73,630
2019	1.400%	50,000	11,665	11,315	72,980
2020	1.600%	55,000	11,315	10,875	77,190
2021	1.800%	55,000	10,875	10,380	76,255
2022	2.000%	60,000	10,380	9,780	80,160
2023	2.250%	60,000	9,780	9,105	78,885
2024	2.500%	65,000	9,105	8,293	82,398
2025	2.750%	65,000	8,293	7,399	80,692
2026	3.000%	65,000	7,399	6,424	78,823
2027	3.250%	70,000	6,424	5,286	81,710
2028	3.350%	70,000	5,286	4,114	79,400
2029	3.450%	75,000	4,114	2,820	81,934
2030	3.500%	80,000	2,820	1,420	84,240
2031	3.550%	<u>80,000</u>	<u>1,420</u>	<u>-</u>	<u>81,420</u>
		<u>\$ 950,000</u>	<u>\$ 123,056</u>	<u>\$ 110,841</u>	<u>\$ 1,183,897</u>

CITY OF ST. LOUIS

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2016

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND, SERIES 2013

Issue in the amount of	\$ 5,445,000
Less: Amount not drawn yet	(11,392)
Principal paid in prior years	(225,000)
Principal paid in current year	<u>(230,000)</u>
Balance payable at June 30, 2016	<u>\$ 4,978,608</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Interest due</u> <u>September 1</u>	<u>Principal due</u> <u>May 1</u>	<u>Interest due</u> <u>May 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2017	2.000%	\$ 49,786	\$ 235,000	\$ 49,900	\$ 334,686
2018	2.000%	47,550	240,000	47,550	335,100
2019	2.000%	45,150	245,000	45,150	335,300
2020	2.000%	42,700	245,000	42,700	330,400
2021	2.000%	40,250	250,000	40,250	330,500
2022	2.000%	37,750	255,000	37,750	330,500
2023	2.000%	35,200	260,000	35,200	330,400
2024	2.000%	32,600	270,000	32,600	335,200
2025	2.000%	29,900	275,000	29,900	334,800
2026	2.000%	27,150	280,000	27,150	334,300
2027	2.000%	24,350	285,000	24,350	333,700
2028	2.000%	21,500	290,000	21,500	333,000
2029	2.000%	18,600	295,000	18,600	332,200
2030	2.000%	15,650	300,000	15,650	331,300
2031	2.000%	12,650	305,000	12,650	330,300
2032	2.000%	9,600	315,000	9,600	334,200
2033	2.000%	6,450	320,000	6,450	332,900
2034	2.000%	3,250	325,000	3,250	331,500
		<u>\$ 500,086</u>	<u>\$ 4,990,000</u>	<u>\$ 500,200</u>	<u>\$ 5,990,286</u>
Less: Amount not drawn yet			<u>(11,392)</u>		
			<u>\$ 4,978,608</u>		



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members of City Council
City of St. Louis, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Louis, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of St. Louis' basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of St. Louis' internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Louis' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of St. Louis' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given those limitations, during our audit we did not identify and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of St. Louis' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and Members of City Council
City of St. Louis, Michigan

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berthiaume & Co.

Saginaw, Michigan
November 29, 2016